

Auditor's report

East Rand Water Care Company NPC

30 June 2016



AUDITOR - GENERAL
SOUTH AFRICA

Mr Tumelo Gopane
Accounting Officer
East Rand Water Care Company NPC
PO Box 1245
Germiston

30 November 2016

Dear Mr Gopane

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of East Rand Water Care Company NPC for the year ended 30 June 2016.

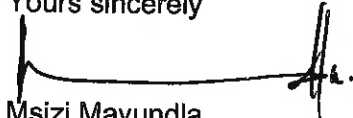
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa (Act No. 108 of 1996) and section 121 (3) of the Municipal Finance Management Act of South Africa (Act No.56 of 2003)(MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. Your attention is drawn to sections 121(4) and 127(1) of the MFMA with regard to the inclusion of this audit report in the annual report of your entity and the submission of said annual report to the municipal manager of the parent municipality.
4. Until tabled in council by the Mayor of the parent municipality as required by section 127(2) of the MFMA, the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and

preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

- Please submit 5 copies of the annual report to the Stakeholder Liaison Manager, 61 Central Street, Houghton.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
 7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Senior Manager: Gauteng Business Unit

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Report of the auditor-general to the Gauteng Provincial Legislature and the council of Ekurhuleni Metropolitan Municipality on East Rand Water Care Company NPC

Report on the financial statements

Introduction

1. I have audited the financial statements of the East Rand Water Care Company NPC (ERWAT) set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipal entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipal entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the ERWAT as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the Companies Act.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

8. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered in the financial statements of the ERWAT during the year ended 30 June 2016.

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Other reports required by the Companies Act

10. As part of my audit of the financial statements for the year ended 30 June 2016, I have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, ERWAT is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2016:
- Objective 1: Improve the effluent quality compliance on pages xx to xx
 - Objective 2: Increase number of plants complying 90% against applicable water quality standards on pages xx to xx
 - Objective 3: Internal sample analysis on pages xx to xx
14. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not identify material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matter

17. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

Achievement of planned targets

18. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year..

Compliance with legislation

19. I performed procedures to obtain evidence that the municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material finding on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, is as follows:

Procurement process

20. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Internal control

21. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the finding on compliance with legislation included in this report.

Financial and performance management

22. Management did not ensure adequate controls are designed, implemented and monitored to ensure compliance with laws and regulations.

Auditor-General

Johannesburg

30 November 2016



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence